

**2002****Alternative Minimum Tax and  
Credit Limitations — Corporations****P (100)**

Attach to Form 100.

Corporation name

California corporation number

**Part I Tentative Minimum Tax (TMT) and Alternative Minimum Tax (AMT) Computation****1** Net income (loss) after state adjustments. Enter the amount from Form 100, line 18; Schedule R, line 1c; or Form 109, line 6 **1****2 Adjustments.** See instructions

- a** Depreciation of tangible property placed in service after 1986 ..... **2a**
- b** Amortization of certified pollution control facilities placed in service after 1986 ..... **2b**
- c** Amortization of mining exploration and development costs incurred after 1987 ..... **2c**
- d** Basis adjustments in determining gain or loss from sale or exchange of property ..... **2d**
- e** Long-term contracts entered into after February 28, 1986 ..... **2e**
- f** Installment sales of certain property ..... **2f**
- g** Tax shelter farm activities (personal service corporations only) ..... **2g**
- h** Passive activities (closely held corporations and personal service corporations only) ... **2h**
- i** Certain loss limitations ..... **2i**
- j** Beneficiaries of estates and trusts. Enter the amount from Schedule K-1 (541), line 8 ... **2j**
- k** Merchant marine capital construction funds ..... **2k**
- l** Combine line 2a through line 2k ..... **2l**

**3 Tax preference items.** See instructions

- a** Depletion ..... **3a**
- b** Intangible drilling costs ..... **3b**
- c** Reserves for losses on bad debts. See instructions ..... **3c**
- d** Accelerated depreciation of real property placed in service before 1987 ..... **3d**
- e** Amortization of certified pollution control facilities placed in service before 1987 ..... **3e**
- f** Add line 3a through line 3e ..... **3f**

**4 Pre-adjustment alternative minimum taxable income (AMTI):**

- a** Combine line 1, line 2l, and line 3f ..... **4a**
- b Apportioned pre-adjustment AMTI.** If income is derived from sources both within and outside of California, see instructions. Otherwise, enter amount from line 4a ..... **4b**

**5 Adjusted current earnings (ACE) adjustment:**

- a** Enter ACE. See instructions ..... **5a**
- b** Subtract line 4b from line 5a (even if one or both of the figures are negative).  
If negative, use brackets ..... **5b**
- c** Multiply line 5b by 75% (.75) and enter the result as a positive number ..... **5c**
- d** Enter the excess, if any, of the corporation's total increases in AMTI from prior year ACE adjustments over its total reductions in AMTI from prior year ACE adjustments. **Note:** Enter an amount on line 5d (even if line 5b is positive) ..... **5d**
- e ACE adjustment:**
- If line 5b is a positive amount or zero, enter the amount from line 5c on line 5e as a positive amount.
  - If line 5b is a negative amount, enter the smaller of line 5c or line 5d on line 5e as a negative amount ..... **5e**

**6** Combine line 4b and line 5e. If zero or less, enter -0- ..... **6****7 a** Reduction for disaster loss carryover deduction, if any, from Form 100, line 22 ..... **7a****b** AMT net operating loss (NOL) deduction. See instructions ..... **7b****c** For 2002 tax year, enter the amount from line 7a ..... **7c****8** AMTI. Subtract line 7c from line 6 ..... **8****9** Enter \$40,000 exemption. See instructions ..... **9****10** Enter \$150,000 limitation. See instructions ..... **10****11** Subtract line 10 from line 8. If zero or less, enter -0- ..... **11****12** Multiply line 11 by 25% (.25) ..... **12****13** Exemption. Subtract line 12 from line 9. If zero or less, enter -0- ..... **13****14** Subtract line 13 from line 8. If zero or less, enter -0- ..... **14****15** Multiply line 14 by 6.65% (.0665) ..... **15****16** Banks and financial corps. Multiply Form 100, line 23, by 2.00% (.0200). See instructions ..... **16****17 TMT.** Add line 15 and line 16 ..... **17****18** Regular tax before credits. Enter amount from Form 100, line 24 or Form 109, line 7. See instructions ..... **18****19 AMT.** Subtract line 18 from line 17. If zero or less, enter -0-. See instructions ..... **19**

**Part II Credits that Reduce Tax**

<b>1</b> Regular tax from Form 100, line 24 or Form 109, line 7 .....	<b>1</b>		
<b>2</b> Tentative minimum tax (before credits) from Part I, line 17 (but not less than the minimum franchise tax, if applicable) ...	<b>2</b>		

		(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
<b>Section A – Credits that reduce excess regular tax.</b>					
<b>3</b> Subtract line 2 from line 1. If zero or less, enter -0- and see instructions. This is your excess regular tax which may be offset by credits .....	<b>3</b>				
<b>A1 Credits that reduce excess regular tax and have no carryover provisions.</b>					
<b>4</b> Code: 162 Prison inmate labor credit .....	<b>4</b>				
<b>A2 Credits that reduce excess regular tax and have carryover provisions.</b>					
See instructions.					
<b>5</b> Code: _____ Credit Name: .....	<b>5</b>				
<b>6</b> Code: _____ Credit Name: .....	<b>6</b>				
<b>7</b> Code: _____ Credit Name: .....	<b>7</b>				
<b>8</b> Code: _____ Credit Name: .....	<b>8</b>				
<b>9</b> Code: 188 Credit for prior year alternative minimum tax from Part III, line 3 ..	<b>9</b>				
<b>Section B – Credits that may reduce regular tax below tentative minimum tax.</b>					
<b>10</b> If Part II, line 3 is zero, enter the amount from line 1 minus the minimum franchise tax, if applicable. If line 3 is more than zero, enter the total of Part II, line 2, minus the minimum franchise tax, if applicable, plus line 9, column (c) ..	<b>10</b>				
<b>B Credits that reduce net tax and have carryover provisions.</b>					
See instructions.					
<b>11</b> Code: _____ Credit Name: .....	<b>11</b>				
<b>12</b> Code: _____ Credit Name: .....	<b>12</b>				
<b>13</b> Code: _____ Credit Name: .....	<b>13</b>				
<b>14</b> Code: _____ Credit Name: .....	<b>14</b>				
<b>Section C – Credits that may reduce alternative minimum tax.</b>					
<b>15</b> Enter your alternative minimum tax from Side 1, Part I, line 19 .....	<b>15</b>				
<b>16</b> Code: 180 Solar energy credit carryover from Section B, column (d) .....	<b>16</b>				
<b>17</b> Code: 181 Commercial solar energy credit carryover from Section B, column (d) .....	<b>17</b>				
<b>18</b> Adjusted AMT. Enter the balance from line 17, column (c) here and on Form 100, line 30 or Form 109, Side 1, line 19 .....	<b>18</b>				

**Part III Credit for Prior Year AMT**

<b>1</b> Enter the alternative minimum tax from the 2001 Schedule P (100), Part I, line 19. See instructions .....	<b>1</b>		
<b>2</b> Carryover of unused credit for prior year alternative minimum tax. See instructions .....	<b>2</b>		
<b>3</b> Total available credit. Add line 1 and line 2. See instructions .....	<b>3</b>		

# Instructions for Schedule P (100)

## Alternative Minimum Tax and Credit Limitations — Corporations

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2001**, and to the California Revenue and Taxation Code (R&TC).

### What's New

For taxable years beginning on or after January 1, 2002, California law conforms to the federal law relating to:

- The deduction for contributions of appreciated property. Contributions of appreciated property are no longer treated as tax preference item for purposes of Alternative Minimum Taxable Income.
- The methodology for calculating deductions for bank bad-debt losses, which limits these deductions for large banks (have more than \$500 million in assets) to actual losses rather than contributions to a reserve for bad debts. Large banks must recognize 50% of their existing bad-debt reserve balances as income in taxable year 2002.

For taxable years beginning on or after January 1, 2002, the credit for prior year alternative minimum tax (AMT) has to be applied before any credits that can reduce the regular tax below the tentative minimum tax (TMT) in accordance with California Revenue and Taxation Code (R&TC) Section 23036 (c).

For taxable years beginning in 2002 and 2003, California has suspended the Net Operating Loss carryover deduction. Taxpayers may continue to compute and carryover an NOL during the suspension period. However, the deduction for disaster losses is not affected by the NOL suspension rules.

The carryover period for suspended losses is extended by two years for losses incurred before January 1, 2002, and by one year for losses incurred after January 1, 2002, and before January 1, 2003. For more information see form FTB 3805Q.

For taxable years beginning on or after January 1, 2002, the NOL carryover computation for the California taxable income of a nonresident or part-year resident is no longer limited by the amount of net operating loss from all sources. Only your California sourced income and losses are considered in determining if you have a California NOL.

The authority of the Wildlife Conservation Board to award Natural Heritage Preservation Tax Credit has been suspended between July 1, 2002, and June 30, 2003, inclusive. Thus, any credits that were allocated before June 30, 2002, may be claimed on the 2002 tax return. Any credits that could have been allocated, but were not allocated, or any new credits that are allocated on or after July 1, 2003, could be claimed on the 2003 tax return, or subsequent tax returns. Carryover is not affected for previously awarded credits, credits awarded before June 30, 2002, or any credits allocated on or after July 1, 2003.

### Important Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2001. Therefore, California has conformed to the income tax changes made to the IRC by

the federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206), the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), Surface Transportation Revenue Act of 1998 (Public Law 105-178), the Ricky Ray Hemophilia Relief Fund Act of 1998 (Public Law 105-369), the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 (Public Law 106-519), the Consolidated Appropriations Act of 2001 (Public Law 106-554), and to technical corrections made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16). However, there are continuing differences between California and Federal law. California has not conformed to some of the law changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16) or the federal Job Creation and Worker Assistance Act of 2002 (Public Law 107-147).

**Note:** Fiscal year taxpayers are subject to California tax law as it conforms to federal law that is applicable for taxable years beginning prior to January 1, 2002.

#### Newly Formed or Qualified Corporations

For corporations that incorporate or qualify to do business in California on or after January 1, 2000, the prepayment of the minimum franchise tax to the California Secretary of State (SOS) is no longer required. For the first taxable year the corporation will compute its tax liability by multiplying its state net income by the appropriate tax rate and will not be subject to the minimum franchise tax. The corporation will become subject to minimum franchise tax beginning in its second taxable year. The corporation will be required to make estimated tax payments based on the projected measured tax for its second and third taxable years.

#### California law conforms to federal law regarding:

- The contribution deduction in excess of adjusted basis for appreciated property.
- The removal of the adjusted current earnings (ACE) depreciation adjustment.
- The use of the same depreciation recovery periods for regular tax and AMT.
- The repeal of the installment method AMT adjustment for farmers. Farmers are allowed to use the installment method of accounting for purposes of AMT for payments received in taxable years beginning on or after January 1, 1997, for installment sales related to the sale or disposition of farm property made in taxable years beginning on or after January 1, 1988.
- The treatment of merchant marine capital construction account funds as an adjustment item for AMT.

#### California does not conform to the following federal AMT provisions:

- The elimination of AMT for small businesses.

### General Information

Unless stated otherwise, the term "corporation" as used in Schedule P (100) and in these instructions, includes banks, financial corporations, limited liability companies (LLCs) classified as corporations, and exempt organizations other than exempt trusts, but not S corporations.

California tax laws give special treatment to some types of income and allow special deductions and credits for some types of expenses. Corporations that benefit from these laws may have to pay AMT in addition to the minimum franchise tax.

Also use this schedule to figure credits that are limited by the TMT or that may reduce AMT.

See IRC Sections 55 through 59 for more information on figuring AMT. But note that R&TC Sections 23455, 23456, 23457, and 23459 modify IRC Sections 55 through 59.

**Who Must File.** Corporations should file Schedule P (100) if the sum of: AMT adjustments, preference items, loss denials, other items as specified under IRC Section 59, and state net income exceeds \$40,000. Exempt organizations, other than exempt trusts with unrelated business income, should file Schedule P (100) if the sum of: AMT adjustments, preference items, loss denials, items specified under IRC Section 59, and state net unrelated business taxable income exceeds \$40,000. Exempt trusts should use Schedule P (541), Alternative Minimum Tax and Credit Limitations – Fiduciaries.

In addition, if the corporation claims credits that are limited by TMT (Part I, line 17), or if the corporation claims credits that reduce the AMT (Part I, line 19), the corporation must file Schedule P (100).

**Members of a Combined Report.** Alternative minimum taxable income (AMTI) and ACE are apportioned and allocated to California and to each taxpayer in the same manner as net income for purposes of regular tax. A separate AMT calculation is required for each member of a combined report. Complete a separate Schedule P (100), Side 1 and Side 2, for each taxpayer included in the combined report. Attach the Schedule P (100) for each taxpayer member in the combined report behind the combined Schedule P (100) for all members. See instructions for Part I, line 4b, line 5a, line 5d, line 7b, line 9, and line 10.

**Short Period Return.** For a short period return, use the formula in IRC Section 443(d) to determine AMTI and AMT.

**Credit for Prior Year AMT.** If the corporation paid AMT for 2001 or has a carryover of credit

for prior year AMT and has no AMT liability for 2002, the corporation may use this credit in 2002 to reduce its regular tax liability. Complete Part III to figure this credit.

## Specific Line Instructions

### Part I — Tentative Minimum Tax (TMT) and Alternative Minimum Tax (AMT) Computation

#### Line 1- Net income (loss) after state adjustments

Enter the amount from Form 100, line 18 or Form 109, line 6. If the corporation filed a Schedule R with the return, enter the amount from line 1c of Schedule R.

#### Line 2a – Depreciation of tangible property placed in service after 1986 and before 1999

Do not include depreciation adjustments attributable to a tax shelter farm activity or a passive activity on this line. Instead, include the adjustment on line 2g or line 2h.

Refigure the depreciation as follows: For property other than real property and property on which the straight-line method was used, use the 150% declining balance method, switching to straight-line for the first taxable year in which that method will give a higher depreciation deduction. Use the same life classes as used on the federal Form 4626, Alternative Minimum Tax – Corporations. For personal property having no asset depreciation range (ADR) class life, use 12 years. For residential rental and nonresidential real property, use the straight-line method over 40 years. Determine the depreciation adjustment by subtracting the recomputed depreciation from the California depreciation on form FTB 3885, Corporation Depreciation and Amortization. Enter the difference on this line.

If the corporation elected to depreciate a grapevine that was replanted in a vineyard as a result of phylloxera or Pierce's disease infestation over 5 years instead of 20 years for regular tax, it must depreciate the grapevine over 10 years for AMT.

**Note:** Depreciation that is capitalized to inventory under the uniform capitalization rules must be refigured using the rules described above. The depreciation adjustment does not apply to property placed in service after December 31, 1998.

#### Line 2b – Amortization of certified pollution control facilities

For any certified pollution control facility placed in service in California after 1986 and before 1999, the five-year depreciation method available for such facilities for regular tax purposes must be replaced for AMT purposes by the alternative depreciation system specified under IRC Section 168(g) (straight-line method, without regard to salvage value.) A facility placed in service after 1998 is depreciated using the IRC Section 168 straight-line method.

#### Line 2c – Amortization of mining exploration and development costs incurred after 1987

If the corporation elected the optional ten year write-off under IRC Section 59(e) for all assets in this category, skip this line.

With respect to each mine or other natural deposit, (other than an oil, gas, or geothermal well) refigure the expenses before the 30% reduction under IRC Section 291(b) by amortizing them over 10 years beginning with the year in which the expenses were paid or incurred. Figure the adjustment by subtracting the refigured amount from the deduction taken under IRC Section 616(a) or 617(a) after the 30% reduction. Enter the amount on this line. If a loss resulted with respect to those expenses, see IRC Section 56(a)(2)(B).

#### Line 2d – Basis adjustments in determining gain or loss from sale or exchange of property

If the corporation disposed of property during the year, refigure the gain or loss from such sale taking into account the AMT adjustments on line 2a through line 2c. Enter the difference between the gain or loss reported for regular tax and the recomputed gain or loss. If the recomputed gain is less, or the loss is more, enter the difference as a negative amount. Otherwise, enter a positive amount.

#### Line 2e – Long-term contracts entered into after February 28, 1986

If the corporation entered into a long-term contract after February 28, 1986, determine the taxable income from the contract under the percentage of completion method of accounting as modified by IRC Section 460(b) and R&TC Section 24673.2 using AMT adjustments and tax preference items.

Determine the difference between that result and the amount determined for the contract in figuring the regular tax and enter the difference on this line. If the refigured taxable income is less than the result when determining the regular tax, enter the difference as a negative amount.

California has conformed to IRC Section 460(b)(2). This section requires the taxpayer to "look-back" to previous years during which the contract work for certain contracts was in progress. The taxpayer must compute interest on the difference between the tax that was actually paid and the tax that would have been paid if the taxpayer had known the actual contract prices and costs that would finally result.

Get form FTB 3834, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to figure the interest due or to be refunded under the "look-back method."

#### Line 2f – Installment sales of certain property

For regular tax purposes, corporations may use the installment method of accounting for sales of certain property. For AMT, corporations may not determine income from dispositions of inventory or other property described in IRC Section 1221(1) using the installment method, except for certain dispositions of timeshares or residential lots, if the corporation elected to pay interest under IRC Section 453(l)(2)(B) (R&TC Section 24667).

If the corporation used the installment method for regular tax purposes, but was required for AMT purposes to report the entire gain in the year of disposition, the corporation may have

adjustments with respect to those dispositions. Enter on this line as a negative amount the current year income the corporation reported for regular tax.

Farmers that received payments for a taxable year beginning on or after January 1, 1997, for qualified installment sales made in taxable years beginning on or after January 1, 1988, do not need to make an adjustment on this line.

#### Line 2g – Tax shelter farm activities (personal service corporations only)

**Caution:** To avoid duplication, if the corporation included AMT adjustments or tax preference items on this line, do not include them on any other line of this schedule.

Complete this line only if the corporation has a gain or loss from a tax shelter farm activity, as defined in IRC Section 58(a)(2), that is not a passive activity. If the tax shelter farm activity is a passive activity, the corporation must include the gain or loss with its other passive activities on line 2h.

Refigure all gains and losses reported for regular tax purposes from tax shelter farm activities using the AMT adjustments and tax preference items.

Figure the tax shelter farm activity gain or loss for AMT using the same rules the corporation used for regular tax except:

- Do not take any refigured loss unless the corporation is insolvent. See IRC Section 58(c)(1); and
- Do not offset gains from other tax shelter activities with any refigured loss.

Instead, suspend and carry over the loss to future taxable years until:

- The corporation has a gain in a future taxable year from that same tax shelter farm activity; or
- The corporation disposes of the activity.

Enter on this line the difference between the AMT tax shelter farm loss and the regular tax shelter farm loss.

#### Line 2h – Passive activities (closely held corporations and personal service corporations only)

**Caution:** To avoid duplication, if the corporation included AMT adjustments or tax preference items on this line, do not include them on any other line of this schedule.

Corporations may enter two kinds of adjustments on this line:

**Regular passive activities.** Refigure passive activity gains and losses for AMT by taking into account all AMT adjustments, tax preference items and AMT prior year unallowed losses that apply to the passive activity.

**Tax shelter passive farm activities.** Refigure any gain or loss from a tax shelter passive farm activity taking into account all AMT adjustments, tax preference items, and AMT prior year unallowed losses. If the amount is a gain, it may be included on form FTB 3802, Corporate Passive Activity Loss and Credit Limitations, but if it is a loss, the adjustment for tax shelter passive farm activity is the loss the corporation reported for regular tax. The AMT loss carryover is the refigured AMT loss.



**Note:** If, at the end of the taxable year, the corporation's liabilities exceed the fair market value of the corporation's assets (insolvency), increase the passive activity loss allowed by that excess (but not more than the total loss). See IRC Section 58(c)(1).

#### **Line 2i – Certain loss limitations**

Refigure the allowable losses from at-risk activities and basis limitations applicable to partnerships, taking into account the AMT adjustments and tax preference items. See IRC Sections 59(h), 465, and 704(d). If the refigured loss is more than the loss reported for purposes of the regular tax, enter on this line as a negative amount the difference between the loss reported on the tax return for purposes of the regular tax and the refigured loss.

#### **Line 2k – Merchant marine capital construction funds**

Amounts deposited in these funds are not deductible for AMT. Earnings on these funds are not excludable from gross income for AMT. If the corporation deducted these amounts or excluded them from income for regular tax, add them back on line 2k.

### **Tax Preference Items**

#### **Line 3a – Depletion**

In the case of mines, wells, and other natural deposits, enter the amount by which the deduction for depletion under IRC Section 611 is more than the adjusted basis of the property at the end of the corporation's taxable year. Figure the adjusted basis without regard to the depletion deduction and figure the excess separately for each property.

California conformed in 1993 to the federal repeal of the AMT depletion adjustment for independent oil and gas producers and royalty owners. See federal Form 4626, Alternative Minimum Tax, Corporations. However, your California depletion costs may continue to be different from the federal amounts because of prior differences in law and differences in basis.

See IRC Section 291(a)(2) for reduction in the amount allowable as a deduction in the case of iron ore and coal.

#### **Line 3b – Intangible drilling costs**

If the corporation elected the optional 60-month write-off under IRC Section 59(e) for all property in this category, skip this line.

Enter the amount by which excess intangible drilling costs exceed 65% of net income from oil, gas, and geothermal properties.

Figure excess intangible drilling costs as follows: From the intangible drilling and development costs allowable under IRC Section 263(c) or 291(b) (except costs in drilling a nonproductive well), subtract the amount that would have been allowable if these costs had been capitalized and either amortized over 120 months starting when production began or treated according to an election made under IRC Section 57(b)(2).

Net income from oil, gas, and geothermal properties is gross income from them, minus the deductions allocable to them, except for excess intangible drilling costs and nonproductive well costs.

Figure the line 3b amount separately for oil and gas properties that are not geothermal deposits and for oil and gas properties that are geothermal deposits.

**Note:** California conformed in 1993 to the limited federal repeal of intangible drilling costs preferences for independent producers. California now conforms to the limit on the benefit of the exclusion of the preference for intangible drilling costs of 40% of AMTI. See the instructions for federal Form 4626. Also, note that your intangible drilling costs amounts may differ from federal amounts because of prior differences in the law.

#### **Line 3c – Reserves for losses on bad debts**

Use this line to adjust the reserves for losses on bad debts of banks to which IRC Section 585 applies. For the purpose of the bad debt reserve method, banks include savings and loans associations, and other financial institution. For more information, see the IRC Section 581 and 585. Enter the excess of the deduction allowable for a reasonable addition to a reserve for bad debts, over the amount that would have been allowable had the institution always maintained its bad debt reserve based on actual experience.

#### **Line 3d – Accelerated depreciation of real property placed in service before 1987**

Enter on this line, but not less than zero, the difference between the depreciation taken for this property in determining the regular tax and depreciation as refigured using the straight-line method. Figure this amount separately for each property and include only positive adjustments. Use the straight-line method over the life of the property using the half-year convention and no salvage value.

#### **Line 3e – Amortization of certified pollution control facilities placed in service before 1987**

For any certified pollution control facility in California placed in service before 1987 (or before August 1, 1986, if an election was made), figure the amount by which the amortization allowable under IRC Section 169 is more than the depreciation deduction otherwise allowable. Before figuring this tax preference item, reduce the amortizable basis by 20% (15% if the facility was placed in service in 1983 or 1984, 0% if placed in service before 1983), as required under IRC Section 291. Multiply the difference above by 59.6% (71.6% if the facility was placed in service in 1983 or 1984, 100% if placed in service before 1983). Enter only positive amounts.

#### **Line 4b – Apportioned pre-adjustment alternative minimum taxable income (AMTI)**

For taxpayers required to apportion their income, pre-adjustment AMTI is apportioned and allocated to California in the same manner as net income for purposes of the regular tax. This may be done by transferring the amount from line 4a to Schedule R, Apportionment and Allocation of Income, line 1a. Refigure the Schedule R taking into account any AMT adjustments, then transfer the refigured net income from Schedule R, line 24 to Schedule P (100), line 4b.

For combined reports, each taxpayer's pre-adjustment AMTI is the sum of (1) that corporation's apportioned share of combined business pre-adjustment AMTI and (2) any of that corporation's nonbusiness California source pre-adjustment AMTI. For additional guidance in making these computations, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

#### **Line 5a – Adjusted ACE adjustment**

If this schedule is for a regulated investment company or a real estate investment trust, skip this line.

The ACE adjustment is the pre-adjustment AMTI from line 4b with additional adjustments. California's ACE adjustment generally follows the federal ACE adjustment rules in IRC Section 56(g). To compute the California ACE, the federal ACE worksheet included in the instructions for the federal Form 4626 can be used by taking into account the modifications of R&TC Sections 23456 (e) and (f), if applicable. For example:

**Taxes.** Taxes on, according to, or measured by income are not deductible from earnings and profits (E&P). Foreign taxes on, according to, or measured by income are not deductible even though a foreign tax credit is not taken for federal purposes. Environmental taxes imposed by IRC Section 59A are not deductible from E&P.

**Depreciation and amortization.** For property placed in service on or after January 1, 1981, and before January 1, 1987, the amount allowable as depreciation or amortization must be determined using the straight-line method for each taxable year of useful life (determined without regard to R&TC Section 24354.2) that the corporation has held the property.

For property placed in service on or after January 1, 1987, and before January 1, 1990, the amount allowable as depreciation or amortization must be determined by using the state AMTI depreciable basis as of the close of the taxable year beginning before January 1, 1990, and applying IRC Section 168(g). For property placed in service on or after January 1, 1990, and before January 1, 1998, use the ADS described in IRC Section 168(g). For property placed in service on or after January 1, 1998, the ACE depreciation is the same as the AMT depreciation. Therefore, no ACE depreciation adjustment is necessary for those assets.

**Dividends.** Dividends deductible for regular California tax purposes are deductible from E&P. The provision of IRC Section 56(g)(4)(C)(ii), for 100% dividend, does not apply.

The provisions of IRC Sections 56(g)(4)(C)(iii) and (iv), for dividends from IRC Section 936 companies and certain dividends received by certain cooperatives, do not apply.

**Certain amortization provisions.** IRC Section 56(g)(4)(D)(ii) was modified to specify that circulation expenditures under R&TC Section 24364 and organizational expenditures under R&TC Section 24407 do not apply to expenditures paid or incurred in taxable years beginning on or after January 1, 1990, for E&P calculations.

**Interest income.** For entities not subject to the minimum franchise tax, interest income included in E&P must not exceed the amount of interest income included for regular tax purposes.

Appropriate adjustments must be made to limit deductions from ACE for interest expense in accordance with the provisions of R&TC Sections 24344 and 24425.

**Apportioning taxpayers and members of a combined report.** ACE is apportioned and allocated to California in the same manner as net income for purposes of the regular tax and AMTI (FTB Legal Ruling 94-3). The method described in the instructions for line 4b may be used to compute the California ACE.

**Line 5d – Excess of AMTI increases over AMTI reductions from prior year ACE adjustments**

For combined reports, each taxpayer corporation enters the excess of its prior year accumulated positive California ACE adjustments over its prior years negative California ACE adjustments.

**Line 7a –** If a disaster loss carryover is claimed in 2002, enter the amount on this line.

**Line 7b – AMT net operating loss (NOL) deduction.**

California has suspended the NOL carryover deduction for taxable years beginning in 2002 and 2003.

**Line 9 and Line 10 –** The \$40,000 exemption and the \$150,000 limitation apply to each bank or corporation included in the combined report that has a filing requirement in California, to the extent that each bank or corporation has AMTI.

**Line 16 – Banks and financial corporations**  
Corporations with negative or zero taxable income on Form 100, line 23, enter -0-.

**Line 18 – Regular tax before credits**  
For installment obligations subject to IRC Section 453(l)(2)(B) (Timeshares and Residential Lots) and IRC Section 453A (Nondealer dispositions greater than \$150,000), do not include tax increases for interest on the deferred tax liability.

**Line 19 – AMT**

If line 17 is more than zero and if the corporation has credits or credit carryovers, continue to Part II. Otherwise, stop here and enter the amount from line 19 on Form 100, line 30; or Form 109, line 19.

## Part II — Credits that Reduce Tax

Complete Part II only if the corporation has tax credits.

**Use Part II to determine:**

- The amount of credit that may be used to offset tax;
- The tax that may be offset;
- The amount of credit, if any, that may be carried over to future years; and
- The order in which to claim credits, if the corporation has more than one credit to claim.

**Note:** Credits are applied against the tax on a separate entity basis. Unless otherwise provided by statutory authority, specific credit(s) are only available to the corporation that incurred the expense that generated the credits.

**Before you begin Part II:**

- Complete Form 100 through line 24.
- Figure the amount of credit(s) using a schedule or the credit form identified in the Credit Table on the next page. Be sure to attach the credit form or schedule to the tax return, if applicable.

**To complete Part II:**

- Complete line 1 through line 3 to figure the amount of excess tax the corporation may offset by credits.
- Identify in which section(s) of Part II the corporation may take tax credit(s). Credits without carryover provisions are listed on Schedule P (100) in Section A1 and may be taken only in that section. Credits with carryover provisions are listed on the Credit Table on the next page. The table identifies the section(s) of Part II in which the corporation may take these tax credits.
- If the corporation has credit(s) in Section B, be sure to complete line 10 in addition to the line(s) for the corporation's credit(s).
- If the corporation's credit is taken in Section A2 or Section B, enter the credit code and the credit name in the space provided. Refer to the Credit Table for the credit code.
- Complete column (a) through column (d) for each line on which the corporation is taking a credit. Refer to "column instructions."
- If the corporation credit(s) are taken in more than one section, complete each section before going to the next section.
- Once the corporation has completed Part II, see "How to Claim Credits" on the next page.

### Section A — Credits that reduce excess regular tax

#### Section A Instructions

**Line 3 –** Subtract line 2 from line 1. If the amount is zero or less than zero, continue to Question 1. If the amount is greater than zero, go to the Section A1 instructions.

1. Does the Credit Table show that the corporation may take the credit ONLY in Section A1 or A2?  
**Yes.** Do not take the credit this year. Go to question 2.  
**No.** Go to Section B to figure the amount of credit the corporation may take this year. Then continue to Section C if the corporation's credit is listed in that section.
2. Does the credit have carryover provisions?  
**Yes.** Enter the credit code, credit name and credit amount in column (a) in the section indicated by the table. Enter -0- in column (b). Enter the credit amount in column (d). This is the amount of the credit the corporation may carry over and use in future years.  
**No.** Do not take the credit this year or in future years.

### Section A1 Instructions

**Line 4 –** If the corporation has the credit listed in this section, complete column (a) through column (c).

### Section A2 Instructions

For taxable years beginning on or after January 1, 2002, the credit for prior year AMT has to be applied before any credits that can reduce the regular tax below the tentative minimum tax (TMT) in accordance with California Revenue and Taxation Code (R&TC) Section 23036 (c).

**Line 5 through Line 9 –** Follow the Credit Table Instructions to find out in which section to claim the credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

**Note:** Generally, it is to the corporation's advantage to apply credits with limited carryovers before credits with no limitation on the carryover. However, the corporation may want to apply credits with no limitation on the carryover first if that is more advantageous.

Corporations may use these credits to reduce regular tax but not below TMT. The corporation may be able to, if applicable, use them in Section B or Section C or carry them over to future years. The credits that do not have shading in column (d) can be used in Section B, or carried over to future years, if applicable, after reducing the regular tax down to TMT.

### Section B — Credits that may reduce regular tax below tentative minimum tax

Corporations may use these credits to reduce the regular tax below TMT. And corporations may carry over to future taxable years any credits remaining after reducing the regular tax down to the minimum franchise tax, if applicable. But, if the corporation has a tax balance and can continue to use the credit in Section C, apply the carryover in Section C.

#### Section B Instructions

**Line 11 through Line 14 –** Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

### Section C — Credits that may reduce alternative minimum tax

If the corporation has AMT and remaining solar energy credit carryover and commercial solar energy credit carryover after reducing the regular tax down to the minimum franchise tax, if applicable, the corporation may reduce AMT using these credits. Also, corporations may carry over to future taxable years any credits remaining after reducing the AMT to zero.

#### Section C Instructions

**Line 16 and Line 17 –** If the corporation has any of the credits listed in this section, complete column (a) through column (d) for each credit in the order listed.

**Column Instructions –** In column:

- (a) Enter the amount of credit available to offset AMT;

- (b) Figure the amount of credit the corporation is able to use this year by entering the smaller of the amount in column (a) or the amount in column (c) from the previous line;
- (c) Figure the amount of AMT remaining to be offset by other credits by subtracting the amount in column (b) from the balance in column (c) of the previous line; and
- (d) Enter the amount of credit carryover available to use in future years by subtracting the amount in column (b) from the amount in column (a).

#### How to Claim Credits

Claim credits by transferring them to Form 100 or Form 109 as follows:

#### Credits on line 4 through line 17

**Form 100** – If the corporation claims only one or two credits, enter the name, code number, and amount of the credit from column (b) on Form 100, line 25 and line 26. To claim credits that are listed in more than one section, total column (b) for the credits that have the same code numbers. Then enter the name, code number, and amount of the credit on Form 100, line 25 and line 26.

If the corporation has any other credits to claim, add the amounts from column (b) for those credits. Enter the total on Form 100, line 27.

**Form 109** – If the organization claims only one to six credits, enter the name, code number, and amount of the credit from column (b) on Form 109, Schedule B, line 1 through line 6. To claim credits that are listed in more than one section, total column (b) for the credits that have the same code numbers. Then enter the name, code number, and amount of the credit on Form 109, Schedule B, line 1 through line 6.

If the organization has any other credits to claim, add the amounts from column (b) for those credits. Enter the total on Form 109, Schedule B, line 7.

#### Credit Table Instructions. To use the table:

1. Find the corporation's credit(s) listed in the table.
2. See which sections are identified in the columns under "Offset Tax in Section."
3. Take the credit only in sections the table identifies for the corporation's credit.
4. Use the credit in the earliest section possible.
5. Complete each section before going to the next section.

### Part III — Credit for Prior Year AMT

Use this part to figure the 2002 credit for prior year AMT if the corporation paid AMT for 2001 or had an alternative minimum tax credit carryover from 2001.

For members of a unitary group filing a combined report, compute the credit for prior year AMT for each entity in the current year's group.

**Line 1** – Enter the AMT from the 2001 Schedule P (100), Part I, line 19. If this amount was reduced by any commercial solar energy credit carryover or solar energy credit carryover, use the AMT from Section C, line 18 of the 2001 Schedule P (100.)

**Line 2** – Enter the credit for prior year carryover from the 2001 Schedule P (100), Part II, line 9, column (d).

**Line 3** – Enter this amount on Part II, line 9, column (a).

**Credit Table**

Code	Current Credits	Form	Offset Tax in Section:			
209	Community Development Financial Institution Deposits	N/A		A2		
205	Disabled Access for Eligible Small Businesses	FTB 3548		A2		
204	Donated Agricultural Products Transportation	FTB 3547		A2		
190	Employer Child Care Contribution	FTB 3501		A2		
189	Employer Child Care Program	FTB 3501		A2		
203	Enhanced Oil Recovery	FTB 3546		A2		
176	Enterprise Zone Hiring & Sales or Use Tax 1 = hiring 2 = sales or use tax	FTB 3805Z			B <sub>1</sub> B <sub>2</sub>	
207	Farmworker Housing – Construction	N/A		A2		
208	Farmworker Housing – Loan	N/A		A2		
215	Joint Strike Fighter Wage	FTB 3534		A2		
216	Joint Strike Fighter Property	FTB 3534		A2		
198	Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax	FTB 3807		A2		
172	Low-Income Housing	FTB 3521			B	
199	Manufacturers' Investment	FTB 3535			B	
211	Manufacturing Enhancement Area (MEA) Hiring	FTB 3808		A2		
213	Natural Heritage Preservation	FTB 3503			B	
188	Prior Year Alternative Minimum Tax	FTB 3510		A2		
162	Prison Inmate Labor	FTB 3507	A1			
183	Research	FTB 3523			B	
206	Rice Straw	N/A		A2		
217	Solar Energy System	FTB 3508		A2		
210	Targeted Tax Area (TTA) Hiring & Sales or Use Tax	FTB 3809			B	
Code	Repealed Credits with Carryover Provisions	Form	Offset Tax in Section:			
175	Agricultural Products	FTB 3540		A2		
196	Commercial Solar Electric System	FTB 3540			B	
181	Commercial Solar Energy	FTB 3540			B	C
202	Contribution of Computer Software	FTB 3540		A2		
191	Employer Ridesharing	FTB 3540				
192	Large Employer			A2		
193	Small Employer Transit					
182	Energy Conservation	FTB 3540		A2		
159	Los Angeles Revitalization Zone (LARZ) Hiring & Sales or Use Tax	FTB 3806			B	
160	Low-Emission Vehicles	FTB 3540		A2		
185	Orphan Drug	FTB 3540			B	
184	Political Contributions	FTB 3540		A2		
174	Recycling Equipment	FTB 3540		A2		
171	Ridesharing	FTB 3540		A2		
200	Salmon & Steelhead Trout Habitat Restoration	FTB 3540		A2		
180	Solar Energy	FTB 3540			B	C
179	Solar Pump	FTB 3540		A2		
201	Technological Property Contribution	FTB 3540		A2		